44th ANNUAL REPORT

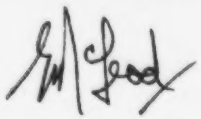
SASKATCHEWAN FOREST PRODUCTS CORPORATION

YEAR ENDED OCTOBER 31, 1988

MESSAGE FROM THE MINISTER

On January 29, 1989, SFPC's Chairman, Mr. Hill, passed away unexpectedly. Mr. Hill served on the Board of Directors since 1982 and was Chairman of the Board from 1985 until his death. Drawing on a wealth of expertise gained from his position as the managing partner of A.F.A. (1979) Ltd. and from his other experience within the lumber industry, he provided well informed leadership and decision making for the Corporation.

While under his direction, Saskatchewan Forest Products Corporation underwent a period of necessary transition. Operations were streamlined and discussions leading to privitization progressed. Presented with many decisions of a commercial nature Mr. Hill always weighed the impact on the people that would be affected. On behalf of the employees and the Board of Directors, we would like to recognize Mr. Hill for his significant contributions. His presence will be missed.



Hon. George McLeod
Minister Responsible for
Saskatchewan Forest Products Corporation

Regina, Saskatchewan
January 13, 1989

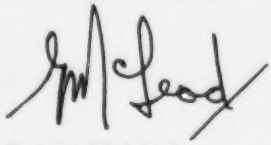
To Her Honour
The Honourable Sylvia Fedoruk
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the annual report of the Saskatchewan Forest Products Corporation for the year ended October 31, 1988, including the financial statements therefore, duly certified by the Corporation's auditors and in the form approved by the Treasury Board, all in accordance with The Crown Corporations Act, 1978.

I have the honour to be, Madam,

Your obedient servant,



George McLeod
Minister Responsible for the
Saskatchewan Forest Products
Corporation

Board of Directors

Mr. Pat Hill, Chairman of the Board, Saskatoon

Honourable George McLeod, Vice Chairman, Regina

Mr. Armand Quessy, Debden

Mr. Alfred Sauder, Carrot River

Mr. Arnold Foss, Pierceland

Mr. Y. Don Elliott, Christopher Lake

Secretary to the Board

Mr. Ronald Kruzeniski, Regina

Corporation Officers and Management

Mr. Douglas Barclay	General Manager
Mr. Fred Hachey	Controller
Mr. Dale Vizina	Woodlands Manager
Mr. Henry A. Peters	Marketing Manager

Division Management

Mr. Roland St. Louis	Manager, Carrot River Sawmill
Mr. Ken Wall	Manager, Treatment Plant Prince Albert

Report of the General Manager

Demand for forestry products declined somewhat in 1988. This resulted in lower prices for both plywood and lumber.

Lumber sales decreased significantly from 1987 sales due to a fire in February 1988 which destroyed the planer mill at the Carrot River site. A new planer mill was constructed at a cost of $1.1 million dollars and commenced operations on June 16, 1988.

Plywood sales revenues were slightly lower than 1987 revenues due mainly to soft demand. This was partially caused by labour disputes in the construction industry in eastern Canada.

Sales of treated wood products were $5.1 million dollars lower than in 1987 as only materials already in inventory were being treated and sold.

Capital expenditures were kept to a minimum by carrying out only those projects which were essential to maintain plant efficiency.

Financial

The Corporation incurred a loss of $1.3 million on consolidated sales of $22.6 million. Total sales for 1988 were $11.5 million lower than in 1987. Decreased lumber and plywood sales volumes in addition to an average selling price decline of 11% attributed to decreased sales.

Capital expenditures for the year were $1.3 million. Total loans at year-end stood at $19.7 million. Interest expense for the year was $1.7 million compared to $2 million in 1987.

Outlook

1989 housing starts in the United States are forecast to decline 1.37 million units. However as in 1988, repair and remodelling expenditures are expected to rise 5.6%.

Prices of softwood lumber and plywood in 1989 are not expected to increase in comparison to 1988 levels and could in fact decline marginally overall.

Report On Operations

Woodlands

Logging operations for 1988 were restricted to Carrot River and Hudson Bay areas. Approximately forty percent of the Carrot River mill requirements was salvaged from the 1988 Elan Burn. A small percentage of burned wood was processed in the Hudson Bay Plywood Plant.

The burned over area was located on the north side of the Nipawin Provincial Park. The balance of the Carrot River harvest was planned and cut from spruce budworm infested stands and areas proposed for reforestation projects by Parks, Recreation and Culture. There was outright purchases of Spruce sawlogs and peeler bolt material from private landowners for the Carrot River and Hudson Bay plants.

Various reforestation projects were completed in the Carrot River supply area, in cooperation with Forestry Canada. The following forest renewal projects were completed in 1988: trees planted: 346,000 White Spruce; Site Preparation: shearblading 500 hectares, power disc trenching 350 hectares and 105 hectares anchor chain scarification to encourage natural regeneration in Jack Pine stands. Plans are to continue good silvicultural practices in 1989.

Saskatchewan Forest Products Corporation's safety program in woodland's operations maintained a good safety record, illustrating the human and financial benefits that result from a safe work environment.

Logging activities for the Prince Albert Wood Treatment Plant were discontinued in 1988.

Carrot River Sawmill

A major fire at the mill site in February completely destroyed the planer mill. Loss of the planer mill resulted in reduced lumber sales of 7 million FBM.

Sawmill production was 18,802 million FBM or 78% of budgeted production. Utilization of a substantial volume of residual timber was the main factor in low production. Planer mill production exceeded budget before the fire and at year-end was within 10% of budgeted daily production.

The mill employed an average of 55 employees and had a total annual payroll of $1.9 million.

Hudson Bay Plywood Plant

Production exceeded budget in all three departments: Green Veneer, Dry Veneer and Press Production. Total plywood production of 79,941 M 3/8 was almost equal to 1987 record production of 80,069 M 3/8. This was achieved even though the mill was down two weeks for maintenance and vacation in 1988.

Improvements and modifications carried out in 1988 attributed to a reduction of production costs of 4%. The mill employed an average of 174 hourly and 13 salaried employees. The payroll for 1988 was $6.4 million.

Treatment Plant

The treatment plant operated for 5 months to treat material for Saskatchewan Power and Saskatchewan Department of Highways. Seven employees remained until year-end to provide security and to handle shipments.

Employees laid-off were given job search workshops and counselling by Stevenson, Kellogg, Ernst & Whinney Management Consultants.

Northern Forest Operations Ltd. (a subsidiary)

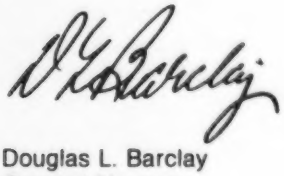
The last remaining mill, the Weyakwin Mill was sold in June 1988. There was very little activity in 1988. Only a small volume of lumber remaining from the sale of Green Lake and Meadow Lake mills was sold.

Personnel

The total number of employees on the payroll at year-end was 308.

In the area of accident prevention there has been a marked improvement which is attributed to an awareness by all employees of the benefits of working safely.

There were no major labour problems in 1988. Scheduled Union/Managernent meetings have contributed to continuing good relations.



Douglas L. Barclay
General Manager
Saskatchewan Forest Products Corporation

AUDITORS' REPORT

December 16, 1988

AUDITORS' REPORT

To the Members of the Legislative
Assembly of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Forest Products Corporation as at October 31, 1988 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at October 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse

Chartered Accountants
Saskatoon, Saskatchewan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note Reference	October 31 1988	1987
		(In Thousands)	
ASSETS			
Current assets:			
Cash on deposit		$ 667	$ 1,666
Accounts receivable		4,037	4,221
Prepaid expenses		109	200
Inventories	1	6,131	4,958
		10,944	11,045
Property, plant and equipment	1 & 3	10,234	9,818
		$21,178	$20,863
LIABILITIES AND PROVINCE'S EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 2,457	$ 2,027
Short-term loans	4 & 11	-	14,099
Current portion of long-term notes	5 & 11	-	1,283
		2,457	17,409
Short-term loans	4 & 11	16,570	-
Long-term notes, less current portion	5 & 11	3,128	3,129
Province of Saskatchewan's equity:			
Equity Advances	6 & 11	20,112	20,112
Deficit		(21,089)	(19,787)
		(977)	325
		$21,178	$20,863

(See accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

	Note Reference	Year ended October 31 1988	1987
		(In Thousands)	
Revenue:			
Sales of forest products		$22,614	$34,120
Expenses:			
Operating costs		20,559	29,976
Interest on short-term loans	4	1,336	1,387
Interest on long-term notes	5	350	595
Depreciation and amortization	1	703	779
Selling, general and administrative		633	1,147
		23,581	33,884
Earnings (loss) before extraordinary items		(967)	236
Extraordinary items	7	(335)	370
Net earnings (loss) for the year		(1,302)	606
Deficit, beginning of year		(19,787)	(20,393)
Deficit, end of year		$(21,089)	$(19,787)

(See accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Note Reference	Year ended October 31 1988	1987
		(In Thousands)	
Cash provided by (used in) operating activities and extraordinary items:			
Earnings (loss) before extraordinary items		$ (967)	$ 236
Add charges to operations not requiring a current cash payment -			
Depreciation and amortization	1	703	779
Loss (gain) on sale of property, plant and equipment (before extraordinary items)		(47)	7
		(311)	1,022
Business interruption insurance proceeds	7	68	-
Recovery of close-down costs	7	356	-
Final payment to employees	7	(620)	-
Net change in non-cash working capital balances related to operations		1,947	1,523
Cash provided by operating activities and extraordinary items		1,440	2,545
Cash provided by (used in) investment activities:			
Compensation for shortfall incurred on sale of operating assets of Big River sawmill		-	652
Proceeds from sale of sawmill operations	7	180	1,311
Proceeds from sale of property, plant and equipment (before extraordinary items)		71	4
Additions to property, plant and equipment	1 & 3	(1,406)	(1,015)
Decrease in advances to joint venture		-	37
Cash provided by (used) in investment activities		(1,155)	989
Cash used in financing activities:			
Reduction of long-term notes	5	(1,284)	(1,935)
Cash used in financing activities		(1,284)	(1,935)
Net increase (decrease) in cash during the year		(999)	1,599
Cash on deposit, beginning of year		1,666	67
Cash on deposit, end of year		$ 667	$1,666

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 1988

1. Summary of accounting policies:
This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements.

Consolidation principles -
These consolidated financial statements include the accounts of the company's wholly-owned subsidiary, Northern Forest Operations Ltd.

Inventories -
Inventories of logs and mill supplies are valued at the lower of cost and replacement cost. Inventories of lumber, plywood and treated products are valued at the lower of average cost and net realizable value. Average cost includes appropriate production overheads.

Property, plant and equipment -
Property, plant and equipment are stated at cost and are depreciated over their estimated useful lives primarily on the diminishing-balance basis at the following rates:

Buildings	5 - 10%
Machinery and equipment	6.7 - 10%
Vehicles	15%
Site improvements	4%
Office equipment	10%
Roads	10%

The costs of maintenance, repairs and minor renewals or replacements are charged to operations as they arise. The cost of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. Government grants received in connection with the construction or expansion of production facilities are credited to the cost of such assets. On retirement or disposition of property, plant and equipment, the costs thereof and the related accumulated depreciation are eliminated from the accounts and any gains or losses are reflected in the statement of operations.

2. Status of Saskatchewan Forest Products Corporation:

The corporation was established by Order-in-Council 1899 of 1949 and continues under the provisions of The Crown Corporations Act. These financial statements will be consolidated in the accounts of the Crown Investments Corporation of Saskatchewan.

3. Property, plant and equipment:

	October 31	
	1988	1987
	(In Thousands)	
Machinery and equipment	$10,533	$9,747
Building and site improvements	4,281	4,173
Land	770	724
Roads and spur tracks	392	392
	15,976	15,036
Less: Accumulated depreciation	5,742	5,218
	$10,234	$ 9,818

4. Short-term loans:
The short-term loans are due to Crown Investments Corporation of Saskatchewan, bear interest at 10.45% (1987 - 9.95%) and mature December 30, 1988 (see Note 11).

5. Long-term notes:

	October 31 1988	October 31 1987
	(In Thousands)	
Crown Investments Corporation of Saskatchewan 10% promissory note repayable in annual instalments of $83,400. Interest is only payable in years in which the corporation records net earnings.	$ 834	$ 917
Crown Investments Corporation of Saskatchewan promissory note, see below.	2,294	3,495
	3,128	4,412
Less: Portion due within one year	-	1,283
	$3,128	$3,129

Interest on this loan is negotiated November 1 annually. The interest rate over the past year was 10% (1987 - 10%). Principal repayments will be $1,200,000 on October 31 of each year until maturity with the final payment being $1,347,000. Principal may be repaid prior to maturity without penalty. Interest is due annually (see Note 11).

6. The Province of Saskatchewan's equity:
The Province of Saskatchewan's equity in the corporation is made up of equity advances by the Crown Investments Corporation of Saskatchewan to the corporation since its inception, less amounts repaid or forgiven. These advances are repayable at the discretion of the Crown Investments Corporation of Saskatchewan and do not bear interest. The deficit represents accumulated earnings and losses of the corporation since the date of the reorganization on November 1, 1977 (see Note 11).

7. Extraordinary items:
During the year, the Prince Albert treatment plant ceased operations. As a result, a final payment of $619,788 has been paid or is payable as at October 31, 1988 to employees.

On February 13, 1988, the Carrot River planer mill was destroyed by fire. Business interruption insurance proceeds of $68,463 and fire insurance proceeds of $863,694 were received. The fire insurance proceeds of $863,694 have been offset against the replacement costs of the plant assets of $1,072,315.

During 1988, the company's wholly-owned subsidiary, Northern Forest Operations Ltd., recovered $356,416 as compensation for close-down costs of sawmill operations pursuant to the purchase agreement between the company and Province of Saskatchewan (see Note 8).

During 1988, Northern Forest Operations Ltd. sold the operating assets of the Weyakwin Chisum mill for proceeds of $180,000. The Weyakwin Chisum mill had inventory with a book value of $57,235 and fixed assets with a net book value of $263,541. The loss on the sale of the mill was $140,776.

	(In Thousands)
Final payment to employees	$ (619)
Business interruption insurance proceeds -	
Carrot River fire	68
Recovery of close-down costs	356
Loss on sale of Weyakwin Chisum mill	(140)
	$(335)

8. Contingencies:

Contingent liability -

Various lawsuits and claims are pending by and against the corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or the results of operations of the company. Any settlements resulting from the resolution of these contingencies will be accounted for as charges to operations in the period in which settlement occurs.

Contingent gains -

Pursuant to a purchase agreement between Northern Forest Operations Ltd. and the Province of Saskatchewan, dated February 27, 1986, the company may seek compensation from the Province for any losses arising from the operations subsequent to October 31, 1985. The agreement also entitles the company to be reimbursed for all closedown costs, to a maximum of $500,000 relating to the closure of any or all of the purchased operations up to March 17, 1991 due to financial non-viability. The company has recovered close-down costs of $356,416 to October 31, 1988.

No provision has been made in the financial statements for any additional compensation or reimbursement which may be recovered. Any subsequent settlement will be accounted for as a credit to operations in the period in which settlement occurs.

9. Related party transactions:

Included in these consolidated financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan Crown controlled departments, agencies and corporations with which the corporation is related.

Account balances resulting from these transactions are included in the consolidated statement of financial position and are settled on normal trade terms.

Other amounts due to related parties and the terms of settlement are described separately in the consolidated financial statements and the notes thereto.

10. Remuneration:

The corporation's directors received remuneration of $7,200 (1987 - $7,200) during the fiscal year.

11. Subsequent event:

On December 16, 1988, Crown Investments Corporation of Saskatchewan provided an equity advance to the corporation of $20,087,000. Proceeds from this equity advance were used by the company to repay all outstanding long-term notes, short-term loans and accrued interest.

12. Commitments:

The corporation has outstanding commitments of approximately $1,800,000 relating to the repair and upgrade of property and equipment at the Hudson Bay plywood plant.

13. Discontinued operations:
During the year, the company ceased operations at the Prince Albert treatment plant. The treatment plant loss for the 1988 year was $146,000, excluding the final payment to employees on closure. Fixed assets with a net book value of $1,300,000 and inventories of $570,000 remain. The company is inviting proposals for the purchase of these assets.

The operations of Northern Forest Operations Ltd. ceased during the year on the sale of the Weyakwin Chisum mill. Northern Forest Operations Ltd. had operating losses of $182,000 during the 1988 year.

14. Comparative figures:
Certain of the prior year comparative figures have been reclassified to conform with the current year presentation.